# Monthly Investment Insights

*January 2023*

## Macro Economic Updates

**Global real GDP growth is slowing rapidly, from 5% year-over-year growth in Q3 of 2021 to just 3.3% in Q3 of 2022**. The International Monetary Fund now projects that **global GDP growth will slow from 6% in 2021 to 3.2% in 2022 and 2.7% in 2023**. This is the weakest growth profile since 2001 except for the global financial crisis and the acute phase of the COVID-19 pandemic.

Fed officials **raised its benchmark policy rate by 50bps and signaled an intention to keep squeezing demand to manage inflation in its latest meeting**. Fed had also projected a peak fed funds rate at 5.1% and ruled out any rate cut in 2023. The pivot to smaller rate rises was followed internationally, with the European Central Bank and the Bank of England both positioning to increase borrowing costs by half a percentage point. While the Fed and others have slowed the pace of hikes, the task of bringing inflation back to target will continue into 2023.

China's PBoC **injected more cash than forecasted into the banking system** in December while **keeping the interest rate on the medium-term policy loans unchanged for the fourth straight month**, to keep liquidity conditions ample towards the year-end. On 8 January 2023, China finally lifted its pandemic measures after three years; concerns however remain as the pivot on zero covid strategy has cause a surge in infections among smaller towns and rural areas that are less-equipped with intensive healthcare infrastructure.

## Asset Allocation

Asset allocation decision remains one of the largest drivers when determining the range of portfolio outcomes amid volatile markets. In the current environment of higher rates, and consequentially, near certainty of recession in the US, we **remain underweight equities, overweight fixed income, with a long duration preference of government bonds over credit.**

### Equities — *Underweight*

- We remain **underweight equities** in view of the recession theme. **Falling corporate earnings expectation (expect -15% growth for US companies)** will also likely drive further equity downside.
- Within equities, we prefer **Asia ex-Japan (AxJ) equities** as the ongoing China recovery and ASEAN defensiveness amid re-opening will potentially help AxJ outperform among global weakness, although volatility remains high.

### Investment Grade Credit — *Neutral*

- Credit spreads are **set to rewiden** when markets start anticipating a recession.
- Although not at extremes, credit (especially US lower quality credit) seems most vulnerable to weakening fundamentals in the backdrop of tighter financial conditions and higher borrowing costs.
- Default rates have already started to pick up and **remains a key risk in risky credit (e.g., High Yield).**

### Treasuries — *Overweight*

- Short-end rates of the US Treasury curve have continued to push higher, while long-end rates have retreated to lower levels, resulting in **a more inverted yield curve.**
- Over the month of November, futures market pricing of Fed Fund peak rates stabilized around 5% for 2Q23 as the market started to price in the dovish signals from the Fed.
- With core inflation starting to retreat and activity indicators showing signs of deterioration, conditions are favorable to **build up some position in treasury bonds.**

## Market Performance

**(US$, As of 31 Dec 2022)**

| | | Dec- 22 | Q4- 22 | Q3- 22 | Q2- 22 | Q1- 22 | 2022 | 2021 |
|---|---|---|---|---|---|---|---|---|
| **Equity** | MSCI All Country World Index | ▼-4.0% | ▲ 9.4 | ▼ -7.3% | ▼ -16.1% | ▼-5.7% | ▼ -19.8 | ▲ 16.8% |
| | MSCI Asia (ex. Japan) Index | ▼-0.4% | ▲ 1.0 | ▼-14.6% | ▼ -9.8% | ▼-8.2% | ▼ -21.5 | ▼ -6.4% |
| **Fixed Income** | Bloomberg Barclays Global Aggregate Bond Index | ▲ 0.5% | ▲ 4.5 | ▼ -6.9% | ▼ -8.3% | ▼ -6.2% | ▼ -16.2 | ▼ -4.7% |
| | Bloomberg Barclays US Treasury Total Return Unhedged USD | ▼ -0.5% | ▲ 0.7 | ▼ -4.3% | ▼ -3.8% | ▼-5.6% | ▼ -12.5 | ▼ -2.3% |

*Source: Bloomberg. Past performance is not necessarily indicative of future performance.*

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